REPORT OF EXAMINATION
OF THE

RESPONSE INDEMNITY COMPANY
OF CALIFORNIA

AS OF
DECEMBER 31, 2006

Filed April 15, 2008

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San Francisco, California
March 10, 2008

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

RESPONSE INDEMNITY COMPANY OF CALIFORNIA

(also referred to as the Company) at its administrative office located at 500 South Broad Street, Meriden, Connecticut 06450. The Company's statutory home office is located at 400 Corporate Pointe, Suite 300, Culver City, California 90230.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2002. This examination covers the period from January 1, 2003 through December 31, 2006. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2006, as deemed necessary under the circumstances.

Workpapers prepared by the Company's independent public accountants, PricewaterhouseCoopers, in connection with its annual statutory audit, were reviewed and relied upon to the extent deemed appropriate.

Concurrent examinations of the following affiliated Companies were completed by the Connecticut and Washington Departments of Insurance: Response Insurance Company, Response Worldwide Insurance Company, Response Worldwide Direct Auto Insurance Company, Warner Insurance Company, Connecticut Life and Casualty Insurance Company and National Merit Insurance Company. Workpapers prepared by those examiners were also reviewed and relied upon to the extent deemed appropriate.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: company history; corporate records; fidelity bond and other insurance; officers' and employees' welfare and pension plans; growth of company; business in force by states; loss experience; accounts and records; and sales and advertising.

SUBSEQUENT EVENTS

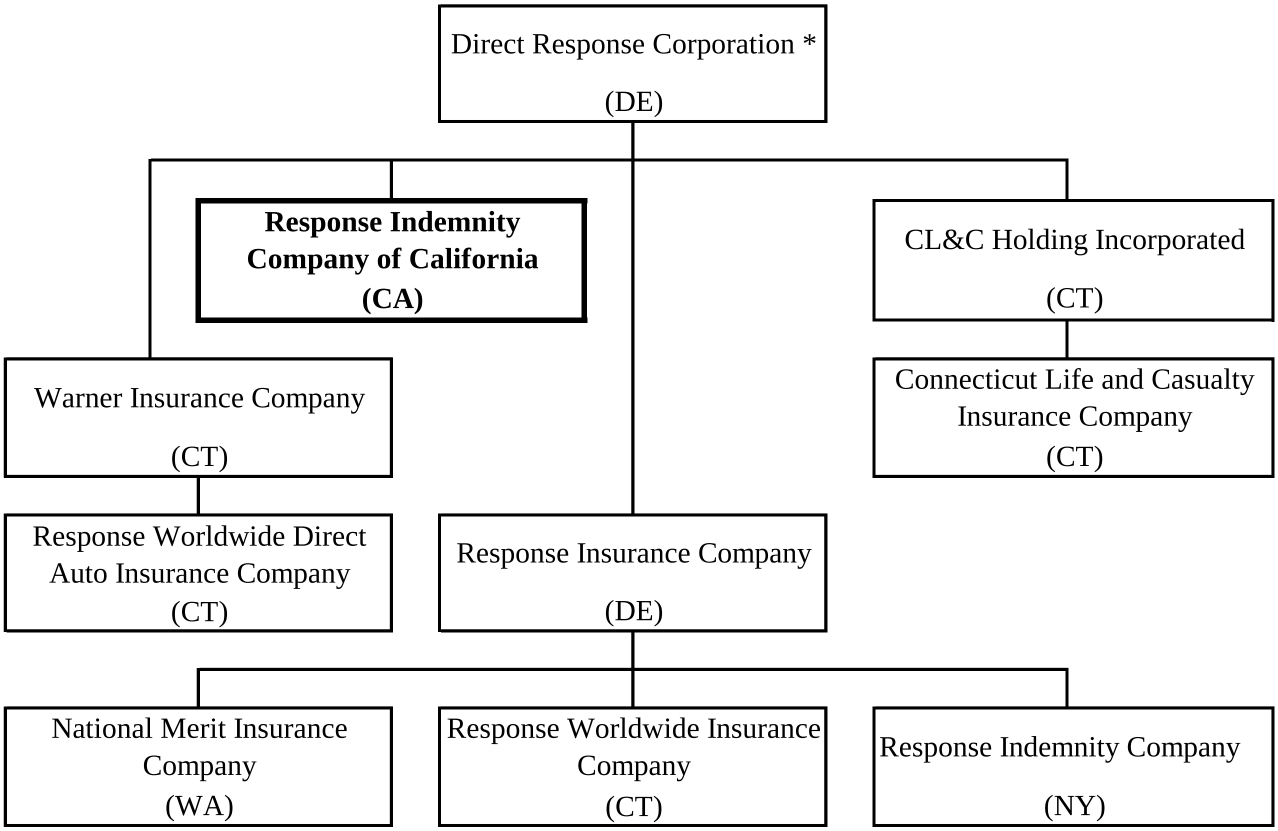
Subsequent to the examination date, the California Department of Insurance received a Form A filing whereby the applicant, J.C. Flowers II L.P., seeks the approval of the California Insurance Commissioner for the acquisition of control of Direct Response Corporation (DRC), the Company's parent. If approved, the ownership of DRC will be as follows:

Name of Entity	% Owned
Morgan Stanley Capital Partners III, L.P.	19.2%
DR Investors, L. P.	13.2%
Plymouth Rock Co.	9.9%
DR Investors, II L.P.	2.5%
MSCP III 892 Investors, L.P.	2.0%
Morgan Stanley Capital Investors, L.P.	0.5%
Stoneridge	0.4%
JCF DRC L.P. (Acquisition Vehicle)*	42.6%
Other Investors	9.7%
Total	100.0%

* Comprised of the following:
J.C. Flowers II L.P. – 88.6%
J.C. Flowers II-A L.P.– 6.0%
J.C. Flowers II-B L.P.– 5.4%

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Direct Response Corporation, a Delaware corporation. The abridged organizational chart depicts the Company within the holding company system (all ownership is 100%).



* The following persons or entities own 10% or more of the total outstanding common and preferred stock of Direct Response Corporation: (i) Morgan Stanley Capital Partners III, L.P. (40.1%), a Delaware limited partnership; and (ii) DR Investors, L.P. (39.0%), a Delaware limited partnership. The general partner of: (i) Morgan Stanley Capital Partners III, L.P. is MSCP III, LLC; and (ii) DR Investors, L.P. is Morgan Stanley Capital Partners III, Inc.

Members of the Board and principal officers serving the Company at December 31, 2006 were as follows:

Directors

Name and Residence	Principal Business Affiliation
Mory Katz Katonah, New York	President and Chief Executive Officer Direct Response Corporation
George Kowalsky Yardley, Pennsylvania	Vice President Direct Response Corporation
August P. Alegi* Stamford, Connecticut	Vice President, Secretary and General Counsel Direct Response Corporation

Principal Officers

Name	Title
Mory Katz	Chairman, President and Chief Executive Officer*****
August P. Alegi*	Vice President, Secretary and General Counsel****
George Kowalsky	Vice President and Treasurer
Leonard N. Samson***	Executive Vice President
Danny A. Collins	Vice President
Kathleen A. Gleeson	Vice President
Steven B. Oakley**	Vice President
Francis M. Quido	Vice President
Clifford Wess	Vice President and Chief Actuary

* Retired as of August 31, 2007
** Resigned as of September 19, 2007
*** Ceased serving as of September 25, 2007
**** Susan S. Claflin named Vice President, Secretary, General Counsel and Director effective October 1, 2007
***** John Ammendola named President effective October 15, 2007

Management Agreements

Service Agreement: The Company has a service agreement with Direct Response Corporation (DRC), its parent, effective October 1, 1999 and approved by the California Department of Insurance (CDI) on October 4, 1999. Under the terms of this agreement, DRC provides the following services to the Company: accounting and auditing; actuarial; administration; advertising, marketing, and public relations; customer services and sales; financial and cash advise or management; information technology; legal; office and general supplies; premium billing and collection; product design and development; regulatory filings and reports; storage; underwriting and risk selection; tax allocation; appointment and cancellation of agents; issuance of policies and endorsements; cancellation of policies; collection and handling of premiums and other funds; reinsurance; preparation of financial reports; and reserving for claims and expenses. The Company pays DRC a fee for the services rendered on a monthly basis that includes all direct and directly allocable expenses, reasonably and equitably determined to be attributable to the Company by DRC, but not exceeding 18% of the net direct written premium of the Company for each month.

The Service Agreement includes a payment provision whereby the Company shall receive an invoice monthly and remit payment within 15 days. The Company made estimated payments in excess of the service fees but did not receive reimbursement on a timely basis. It is recommended that the Company comply with the terms of the Service Agreement as filed with the CDI pursuant to California Insurance Code Section 1215.4.

Tax Sharing Agreement: The Company's federal income tax return is filed on a consolidated basis with its parent company, DRC, pursuant to the Tax Sharing Agreement dated January 18, 2001 as approved by the CDI on January 12, 2001. The tax liability is allocated to the participants of the tax return based upon the liability or refund that would be produced under separate return calculations, with credit being granted for any net losses incurred by any of the companies to the extent the losses can be used in the consolidated return.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact insurance business only in the State of California and only for the following classes of insurance: Automobile Liability and Automobile Physical Damage. The Company writes preferred and standard private passenger automobile insurance.

Business is produced mainly through direct mail and internet sites monitored by salaried service representatives of the parent company, Direct Response Corporation, located in St. Louis, Missouri and Meriden, Connecticut.

REINSURANCE

Assumed

The Company does not have reinsurance assumed business.

Ceded

The following is a summary of ceded reinsurance treaties (all with an authorized reinsurer) that were inforce as of December 31, 2006:

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
Liability:			
1st Excess of Loss	General Reinsurance Corporation	$350,000 each loss occurrence	$650,000 each loss occurrence
2nd Excess of Loss	General Reinsurance Corporation	$1 million each loss occurrence	$1 million each loss occurrence in excess of $1 million
3rd Excess of Loss	General Reinsurance Corporation	50% of $1 million each loss occurrence in excess of $2 million	50% of $1 million each loss occurrence in excess of $2 million

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
Property Damage:			
1st Excess of Loss	General Reinsurance Corporation	$2 million plus 5% of $8 million excess of $2 million each loss occurrence	95% of $8 million excess of $2 million each loss occurrence
2nd Excess of Loss	General Reinsurance Corporation	$10 million plus 50% of $5 million each loss occurrence in excess of $10 million	50% of $5 million each loss occurrence in excess of $10 million

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2006

Underwriting and Investment Exhibit for the Year Ended December 31, 2006

Reconciliation of Surplus as Regards Policyholders from December 31, 2002 through December 31, 2006

Statement of Financial Condition
as of December 31, 2006

Assets	Ledger and Non-ledger Assets	Nonadmitted Assets	Net Admitted Assets	Notes
Bonds	$5,905,061	$	$5,905,061	
Cash and short-term investments	658,612		658,612	
Investment income due and accrued	76,832		76,832	
Premiums and considerations:				
Uncollected premiums and agent's balances in the course of collection	24,990		24,990	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	39,335		39,335	
Net deferred tax asset	45,146	45,146		
Receivable from parent, subsidiaries and affiliates	99,427		99,427	
Total assets	$6,849,403	$ 45,146	$6,804,257	

Liabilities, Surplus and Other Funds			Notes
Losses		$ 346,956	(1)
Loss adjustment expenses		163,292	(1)
Other expenses		1,086	
Taxes, licenses and fees		5,560	(2)
Current federal and foreign income taxes		24,788	
Unearned premiums		275,296	
Advance premiums		14,337	
Ceded reinsurance premiums payable (net of ceding commissions)		1,875	
Payable to parent, subsidiaries and affiliates		2,321	
Aggregate write-ins for liabilities (unclaimed property)		14,030	
Total liabilities		849,541	
Common capital stock	$ 2,600,000		
Gross paid-in and contributed surplus	3,500,200		
Unassigned funds	(145,484)		
Surplus as regards policyholders		5,954,716	
Total liabilities, surplus and other funds		$6,804,257	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2006

Statement of Income

Underwriting Income		
Premiums earned		$ 909,691
Deductions:		
Losses incurred	$625,697	
Loss expenses incurred	70,409	
Other underwriting expenses incurred	247,696	
Total underwriting deductions		943,802
Net underwriting loss		(34,111)
Investment Income		
Net investment income earned	$221,343	
Net realized capital losses	(434)	
Net investment gain		220,909
Other Income		
Net loss from agents' or premium balances charged off	$ (3,192)	
Finance and service charges not included in premiums	17,084	
Total other income		13,892
Net income before federal and foreign taxes		200,690
Federal and foreign taxes incurred		64,604
Net income		$ 136,086

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2005		$5,863,736
Net income	$136,086	
Change in net unrealized capital gains	4,088	
Change in net deferred income tax	(119,448)	
Change in nonadmitted assets	70,254	
Change in surplus as regards policyholders for the year		90,980
Surplus as regards policyholders, December 31, 2006		$5,954,716

Reconciliation of Surplus as Regards Policyholders
from December 31, 2002 through December 31, 2006

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2002, per Examination			$5,898,049
Net loss	$	$174,755	
Change in nonadmitted assets		20,477	
Change in unrealized capital gains	17,629		
Change in deferred income tax	55,966		
Aggregate write-in lines for gains in surplus	178,304		
Total gains and losses	$251,899	$195,232	
Increase in surplus as regards policyholders			56,667
Surplus as regards policyholders, December 31, 2006, per Examination			$5,954,716

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based on an analysis by a Casualty Actuary for the California Department of Insurance, the Company's loss and loss adjustment expense reserves as of December 31, 2006 were found to be reasonably stated and have been accepted for purposes of this examination.

(2) Taxes, Licenses and Fees

California Insurance Code (CIC) Section 1872.8(a) states, in part, that each insurer doing business in the State of California must pay an annual Vehicle Fraud Assessment Fee for each vehicle insured under an insurance policy it issues in California. The fee provides funding for the increased investigation and prosecution of fraudulent automobile insurance claims and automobile theft in the State of California.

During the course of this examination, it was noted that the Company was not in compliance with this code section as it did not pay an assessment on all vehicles as defined in the California Code of Regulations Section 2698.61(r). It is recommended the Company review its filings and submit revised reports to the California Department of Insurance. It is also recommended the Company comply with CIC Section 1872.8(a).

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control - Management Agreements (Page 6): It is recommended that the Company comply with the terms of the Service Agreement as filed with the California Department of Insurance pursuant to CIC Section 1215.4.

Comments on Financial Statement Items - Taxes, Licenses and Fees (Page 12): It is recommended the Company review its filings and submit revised reports to the California Department of Insurance. It is also recommended the Company comply with California Insurance Code Section 1872.8(a).

Previous Report of Examination

Cash and Short-Term Investments (Page 11): It was recommended that the Company transfer and maintain the Chase Manhattan bank accounts in California in compliance with California Insurance Code (CIC) Section 1104.1 or establish accounts that would comply with CIC Section 1104.9. The Company is now in compliance with this recommendation.

It was recommended that old outstanding checks be removed from the lists of outstanding checks and reclassified to an unclaimed fund account, which would be subject to escheat to the appropriate state agencies. The Company is now in compliance with this recommendation.

Comments on Financial Statement Items – Uncollected Premiums and Agents' Balances in Course of Collection (Page 11): It was recommended that installment premiums booked but deferred and not yet due be reported in the Annual Statement under "Deferred premiums, agents' balances and installments booked but deferred and not yet due." The Company is now in compliance with this recommendation.

ACKNOWLEDGMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

/S/

Wayne Leiran, CFE
Examiner-In-Charge
Department of Insurance
State of California